

AR61

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

Consolidated Financial Statements of

SPARTA CAPITAL LTD.

(formerly Mac-Mel Financial Corporation Inc.)

Years ended June 30, 1996 and 1995

SPARTA CAPITAL LTD.

(formerly Mac-Mel Financial Corporation Inc.)

Consolidated Financial Statements

Years ended June 30, 1996 and 1995

Auditors' Report	1
-------------------------------	----------

Consolidated Financial Statements:

Consolidated Balance Sheets	2
Consolidated Statements of Income (Loss) and Deficit	3
Consolidated Statements of Changes in Financial Position	4
Notes to Consolidated Financial Statements	5

AUDITORS' REPORT

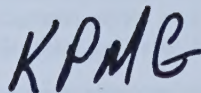
To the Shareholders of Sparta Capital Ltd.:

We have audited the consolidated balance sheet of Sparta Capital Ltd. as at June 30, 1996 and the consolidated statements of income (loss) and deficit and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The consolidated financial statements as at June 30, 1995 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated September 18, 1995.



Chartered Accountants

Edmonton, Canada

September 6, 1996

SPARTA CAPITAL LTD.

(formerly Mac-Mel Financial Corporation Inc.)

Consolidated Balance Sheets

June 30, 1996 and 1995

	1996	1995
Assets		
Current assets:		
Cash	\$ 171,159	\$ 20,194
Accounts receivable	101,156	132,475
Marketable securities, at cost which approximates market value	92,472	49,468
Notes receivable (note 2)	53,897	247,986
Income taxes recoverable	19,837	—
Prepaid expenses	13,591	9,004
	452,112	459,127
Investments (note 3)	60,001	60,003
Deferred charges (note 4)	75,000	95,000
Capital assets (note 5)	63,822	53,863
Goodwill (note 6)	1,159,484	1,172,680
	\$ 1,810,419	\$ 1,840,673
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 7)	\$ —	\$ 224,256
Accounts payable and accrued liabilities	167,942	94,940
Income taxes payable	—	14,403
Current portion of long-term debt	137,500	—
Current portion of notes payable	—	368,000
	305,442	701,599
Lease inducements	15,447	—
Long-term debt (note 9)	481,250	—
Notes payable (note 10)	109,218	203,385
Shareholders' equity:		
Share capital (note 11)	1,306,028	1,370,413
Contributed surplus (note 11)	14,080	—
Deficit	(421,046)	(434,724)
	899,062	935,689
Trust assets and liabilities (note 13)		
Commitments and contingencies (note 16)		
Subsequent event (note 17)		
	\$ 1,810,419	\$ 1,840,673

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

SPARTA CAPITAL LTD.

(formerly Mac-Mel Financial Corporation Inc.)

Consolidated Statements of Income (Loss) and Deficit

Years ended June 30, 1996 and 1995

	1996	1995
Real estate management revenue	\$ 1,658,050	\$ 1,208,812
Real estate management expenses:		
Wages and benefits	975,039	730,865
Rent and operating costs	63,658	42,829
Other	371,516	271,112
	1,410,213	1,044,806
	247,837	164,006
Other income:		
Investment income	6,142	14,573
Net gain on disposal of investments and marketable securities	162,804	33,249
	168,946	47,822
	416,783	211,828
Other expenses:		
Write-down of deferred charges	124,190	—
Amortization of deferred charges	20,000	5,000
Amortization of goodwill	88,196	69,899
Amortization of capital assets	18,426	16,290
Professional and directors' fees	61,256	60,455
Interest on long-term debt	31,867	—
Consulting fees	29,950	16,000
Interest on notes payable	10,828	46,383
Other	13,749	16,586
Write down of investments	—	26,189
	398,462	256,802
Income (loss) before income taxes	18,321	(44,974)
Income taxes: (note 8)		
Current	59,893	26,843
Tax benefit of losses carried forward not previously recognized	(55,250)	—
	4,643	26,843
Net income (loss)	13,678	(71,817)
Deficit, beginning of year	(434,724)	(362,907)
Deficit, end of year	\$ (421,046)	\$ (434,724)
Earnings (loss) per share:		
Basic	\$ 0.002	\$ (0.009)

See accompanying notes to consolidated financial statements.

SPARTA CAPITAL LTD.

(formerly Mac-Mel Financial Corporation Inc.)

Consolidated Statements of Changes in Financial Position

Years ended June 30, 1996 and 1995

	1996	1995
Cash provided by (used in):		
Operations:		
Net income (loss)	\$ 13,678	\$ (71,817)
Items which do not involve cash:		
Gain on disposal of investments and marketable securities	(162,804)	(33,249)
Write-down of deferred charges	124,190	—
Amortization of deferred charges	20,000	5,000
Amortization of goodwill	88,196	69,899
Amortization of capital assets	18,426	16,290
Write down of investments	—	26,189
Change in non-cash operating working capital (note 14)	65,494	2,189
	167,180	14,501
Financing:		
Issue of note payable	—	825,000
Repayment of notes payable	(468,000)	(257,000)
Accrued interest on notes payable	10,833	3,385
Repayment of accrued interest on notes payable	(5,000)	—
Long-term debt advances	687,500	—
Repayments of long-term debt	(68,750)	—
Lease inducements	15,447	—
Issue of shares	9,406	149,916
Shares acquired for cancellation	(59,711)	—
	121,725	721,301
Investments:		
Additions to capital assets	(32,082)	(64,480)
Proceeds on disposal of capital assets	3,697	—
Additions to notes receivable	(215,587)	—
Reduction of notes receivable	409,676	34,725
Purchase of marketable securities	(90,000)	(49,168)
Acquisition of investments	—	(6,745)
Proceeds on sale of investments and marketable securities	209,802	362,474
Additional cost of acquisition allocated to goodwill	(75,000)	(1,242,579)
Deposits refunded	—	125,000
Cost of purchased contracts	(124,190)	(100,000)
	86,316	(940,773)
Increase (decrease) in cash	375,221	(204,971)
Cash (bank indebtedness), beginning of year	(204,062)	909
Cash (bank indebtedness), end of year	\$ 171,159	\$ (204,062)

See accompanying notes to consolidated financial statements.

SPARTA CAPITAL LTD.

(formerly Mac-Mel Financial Corporation Inc.)

Notes to Consolidated Financial Statements

Years ended June 30, 1996 and 1995

The Company is incorporated under the Business Corporations Act of Alberta. Its principal activity is the provision of property management and other real estate services.

During the year, the Company changed its name from Mac-Mel Financial Corporation Inc. to Sparta Capital Ltd.

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Company's wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated.

(b) Revenue recognition:

The Company recognizes property management fee revenue when the property management services are provided. Leasing and sales fees are recognized at the time the terms of the agreement are fulfilled.

(c) Investments:

Investments are carried at cost, or at cost less amounts written off to reflect a decline in value which is other than temporary.

(d) Deferred charges:

The cost of purchased contracts is amortized using the straight-line method over their estimated life of five years. Any impairment in the value of the contracts is written off immediately against income.

(e) Capital assets:

Capital assets are stated at cost. Amortization is provided using the straight-line method at the following annual rates:

Assets	Rate
Office equipment	10%
Computer hardware	20%
Industrial machines	20%
Leasehold improvements	20%

(f) Goodwill:

Goodwill represents the excess of purchase price over the fair values of identifiable net assets acquired and is being amortized on the straight-line basis over 15 years. The fair value of goodwill is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any impairment in the value of goodwill is written off immediately against income.

SPARTA CAPITAL LTD.

(formerly Mac-Mel Financial Corporation Inc.)

Notes to Consolidated Financial Statements, continued

Years ended June 30, 1996 and 1995

1. Significant accounting policies, continued:

(g) Lease inducements:

Lease inducements will be amortized, on the straight-line basis, as a reduction of rental expense over the term of the lease, commencing in fiscal 1997.

2. Notes receivable:

	1996	1995
RTO Enterprises Inc.:		
Note receivable, non-interest bearing, due \$17,965 monthly	\$ 53,897	\$ —
604924 Saskatchewan Ltd.:		
Prime plus 2% loan receivable	—	40,501
Loan receivable, interest free	—	66,000
443654 B.C. Ltd.:		
Prime plus 2% loan receivable	—	41,757
Loan receivable, interest free	—	62,000
426743 B.C. Ltd.:		
7% loan receivable	—	37,728
	\$ 53,987	\$ 247,986

3. Investments:

	1996	1995
Mortgage receivable (note 16)	\$ 60,000	\$ 60,000
Mineral rights	1	1
Investment in affiliated companies:		
604924 Saskatchewan Ltd. (50% equity)	—	1
443654 B.C. Ltd. (60% equity)	—	1
	\$ 60,001	\$ 60,003

The mortgage receivable is in default. It has a face value of \$86,189 of which \$26,189 has been provided as an allowance for loan loss. The allowance has been determined based on an appraisal of the underlying security. (See note 16.)

SPARTA CAPITAL LTD.

(formerly Mac-Mel Financial Corporation Inc.)

Notes to Consolidated Financial Statements, continued

Years ended June 30, 1996 and 1995

4. Deferred charges:

	1996	1995
Cost of purchased contracts	\$ 224,190	\$ 100,000
Less accumulated amortization	(25,000)	(5,000)
Less write-down in carrying value	(124,190)	—
	\$ 75,000	\$ 95,000

5. Capital assets:

			1996	1995
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment	\$ 91,376	\$ 79,436	\$ 11,940	\$ 18,171
Computer hardware	206,801	172,122	34,679	33,431
Industrial machines	3,140	1,384	1,756	2,261
Leasehold improvements	15,447	—	15,447	—
	\$ 316,764	\$ 252,942	\$ 63,822	\$ 53,863

6. Goodwill:

	1996	1995
Cost	\$ 1,317,579	\$ 1,242,579
Less accumulated amortization	158,095	69,899
	\$ 1,159,484	\$ 1,172,680

7. Bank indebtedness:

The Company has available an operating line of credit of \$150,000 at prime plus 1%. In addition, the bank indebtedness shares security with the long-term debt (note 9).

SPARTA CAPITAL LTD.

(formerly Mac-Mel Financial Corporation Inc.)

Notes to Consolidated Financial Statements, continued

Years ended June 30, 1996 and 1995

8. Income taxes:

- (a) At June 30, 1996, the Company has \$265,606 (1995 - \$388,363) of allowable capital losses available to reduce future taxable capital gains. The potential income tax benefit of these losses has not been recorded in these financial statements.
- (b) Income tax expense varies from the amounts that would be computed by applying the basic federal and provincial income tax rates aggregating 45% (1995 - 44%) to income (loss) before income taxes, as shown in the following table:

	1996	1995
Income (loss) before income taxes	\$ 18,321	\$ (44,974)
Application of basic tax rates on income (loss)	\$ 8,244	\$ (19,800)
Increase (decrease) in taxes resulting from:		
Non-deductible amortization	44,730	21,987
Non-taxable portion of capital gains	(20,970)	—
Deductions deferred to future years	19,076	—
Other items	8,813	24,656
Provision for income taxes	\$ 59,893	\$ 26,843

9. Long-term debt:

	1996	1995
Term loan repayable in monthly principal amounts of \$7,917	\$ 427,500	\$ —
Term loan repayable in monthly principal amounts of \$1,667	90,000	—
Term loan repayable in monthly principal amounts of \$1,875	101,250	—
	618,750	—
Less current portion	137,500	—
	\$ 481,250	\$ —

SPARTA CAPITAL LTD.

(formerly Mac-Mel Financial Corporation Inc.)

Notes to Consolidated Financial Statements, continued

Years ended June 30, 1996 and 1995

9. Long-term debt, continued:

The term loans bear interest at the Company's bank's prime lending rate plus 1 1/2%, are due December, 2000, and are secured by a general security agreement providing a fixed charge on all property of the Company.

Principal due on the long-term debt in each of the next five years is:

1997	\$ 137,500
1998	137,500
1999	137,500
2000	137,500
2001	68,750
	\$ 618,750

10. Notes payable:

	1996	1995
Promissory note payable to a company controlled by a director, bearing interest at 10% compounded monthly, unsecured and without fixed terms of repayment. The holder of the note has indicated that the note will not be materially reduced during the next fiscal year. Accordingly, it has been classified as a long-term liability.	\$ 100,000	\$ 100,000
Accrued interest on promissory note payable	9,218	3,385
Notes payable to former shareholders of Berdean Management & Realty Ltd., at discounted value based on 9% annual interest	—	468,000
	109,218	571,385
Less current portion	—	368,000
	\$ 109,218	\$ 203,385

SPARTA CAPITAL LTD.

(formerly Mac-Mel Financial Corporation Inc.)

Notes to Consolidated Financial Statements, continued

Years ended June 30, 1996 and 1995

11. Share capital:

	1996	1995
Authorized:		
Unlimited number of common shares		
50,000,000 non-voting preferred shares, issuable in series		
Issued:		
7,475,608 common shares (1995 - 7,810,408 shares)	\$ 1,417,211	\$ 1,481,596
Issuance costs	(111,183)	(111,183)
	<u>\$ 1,306,028</u>	<u>\$ 1,370,413</u>

The rights, privileges, restrictions and conditions attached to the preferred shares are to be determined by the Directors at time of issuance.

Share transactions during 1996 and 1995 were as follows:

	1996	1995	1996	1995
	Number of shares		Amount	
Balance outstanding, beginning of year	7,810,408	6,802,908	\$ 1,481,596	\$ 1,320,396
Shares acquired for cancellation	(389,000)	—	(73,791)	—
Shares issued for cash	—	1,007,500	—	161,200
Shares issued to settle unpaid services	54,200	—	9,406	—
Balance outstanding, end of year	<u>7,475,608</u>	<u>7,810,408</u>	<u>\$ 1,417,211</u>	<u>\$ 1,481,596</u>

The difference of \$14,080 between the carrying book value of the shares acquired for cancellation and the purchase price has been reflected as contributed surplus on the balance sheet.

SPARTA CAPITAL LTD.

(formerly Mac-Mel Financial Corporation Inc.)

Notes to Consolidated Financial Statements, continued

Years ended June 30, 1996 and 1995

12. Stock options and warrants:

The Company has reserved 300,000 common shares for its Directors and Management Stock Option Plan. Under this plan, the option holders may exercise their option to purchase the reserved common shares for prices as follows:

1997	\$0.20 per share
1998	\$0.24 per share
1999	\$0.29 per share
2000	\$0.35 per share
2001	\$0.42 per share

The Company has issued 1,007,000 warrants to purchase common shares at an exercise price of \$0.25 per share. The warrants expire on December 30, 1996.

13. Trust assets and liabilities:

Trust assets and liabilities held for clients and tenants of properties managed by the Company are maintained separately from the Company's assets and are not recorded in these consolidated financial statements. These assets and liabilities are governed by the Real Estate Act (formerly the Real Estate Agents' Licensing Act).

14. Change in non-cash operating working capital:

	1996	1995
Accounts receivable	\$ 31,319	\$ (95,409)
Income taxes recoverable	(19,837)	—
Prepaid expenses	(4,587)	(8,454)
Accounts payable and accrued liabilities	73,002	91,649
Income taxes payable	(14,403)	14,403
	\$ 65,494	\$ 2,189

SPARTA CAPITAL LTD.

(formerly Mac-Mel Financial Corporation Inc.)

Notes to Consolidated Financial Statements, continued

Years ended June 30, 1996 and 1995

15. Related party transactions:

During the year, the Company had the following transactions with related parties:

- (a) Incurred professional fees and consulting fees of \$35,206 (1995 - \$75,441) to directors and related parties. At June 30, 1996, \$12,000 (1995 - \$16,000) of such fees is included in accounts payable and accrued liabilities.
- (b) Asset management fees of \$20,077 (1995 - \$16,157) and interest of \$10,828 (1995 - \$3,385) were charged by a company controlled by a director.

16. Commitments and contingencies:

The Company occupies office space in Edmonton and Calgary under an operating lease agreement and an offer to lease agreement respectively. Annual base rental payments under the agreements are as follows:

	Edmonton	Calgary	Total
1997	\$ 33,500	\$ 9,600	\$ 43,100
1998	36,500	9,600	46,100
1999	36,500	9,600	46,100
2000	36,500	9,600	46,100
2001	36,500	4,000	40,500
2002	3,000	—	3,000
	\$ 182,500	\$ 42,400	\$ 224,900

Under the terms of the agreements, the Company is also responsible for its proportionate share of property taxes and building operating costs.

The Company is a defendant in two lawsuits with claims totalling \$1,030,000. The likelihood of loss is not determinable and no provision for the claims has been made in the accounts. Any losses arising from the resolution of these matters will be accounted for as expenses in the periods of settlement.

A plaintiff in an action against the Company in the amount of \$900,000 included above is the debtor under the mortgage receivable (note 3). The timing of and extent to which the Company is able to realize the proceeds of the mortgage receivable are dependent upon the outcome of this claim.

SPARTA CAPITAL LTD.

(formerly Mac-Mel Financial Corporation Inc.)

Notes to Consolidated Financial Statements, continued

Years ended June 30, 1996 and 1995

17. Subsequent event:

On August 7, 1996, the Company sold its shares in a wholly owned subsidiary, Canfield Financial Ltd., to the president of the Company in exchange for an unsecured, non-interest bearing note receivable of \$125,000, due on demand. The proceeds received equaled the carrying value of the investment.

18. Comparative figures:

Certain comparative figures have been reclassified to conform with the consolidated financial statement presentation adopted in the current year.

